

Message Text

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E.O. 11652:N/A

TAGS: ETRD, JA

SUBJECT: JAPANESE IMPORT QUOTAS ON LEATHER
PASS:SLANDE

1. FYI - RECEIVED 1/9/78 FOLLOWING LETTER SETTING FORTH
POSITION OF TANNER'S COUNCIL OF AMERICA WITH RESPECT
TO LEATHER EXPORTS TO JAPAN.

BEGIN TEXT

DEAR MS. COFFIELD:

THIS LETTER IS TO CLARIFY THE U.S. TANNING INDUSTRY'S
POSITION STATED IN OUR PHONE CONVERSATION FRIDAY, JAN-
UARY 6, REFERRING TO A POSSIBLE OFFER ON LEATHER BY THE
JAPANESE DURING THE BILATERAL TALKS THAT ARE TAKING
PLACE THIS WEEK. IT IS MY UNDERSTANDING THAT THIS OFFER
MIGHT BE FORTHCOMING IN RESPONSE TO THE U.S. ANSWER TO
THE JAPANESE QUESTION AS TO WHAT WOULD BE AN ECONOMIC LEVEL
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TO WHICH THE IMPORT QUOTAS MIGHT BE RAISED TO GIVE U.S.
FIRMS AN OPPORTUNITY TO MERCHANDISE THEIR PRODUCT. I
FURTHER UNDERSTAND THAT ACCEPTANCE OF THIS PROPOSED
JAPANESE OFFER DOES NOT PREJUDICE OUR POSITION IN THE
MULTILATERAL NEGOTIATIONS AND THAT THIS OFFER IS BUT A
FIRST STEP: ONE OF THE EMERGENCY MEASURES BEING CONSIDERED

AS REDRESS TO THE CURRENT BALANCE OF TRADE
DISPARITY EXISTING BETWEEN JAPAN AND THE U.S. ALSO,
ACCEPTANCE OF AN INITIAL JAPANESE OFFER DOES NOT MEAN A
RETREAT FROM THE POSITION THAT ACCESS TO THE JAPANESE
LEATHER MARKET MIGHT BE EQUAL TO THAT AFFORDED THE
JAPANESE TO OUR MARKET.

MY RESPONSE TO YOUR QUESTION WAS THAT BECAUSE OF THE
CHANGES IN FOREIGN EXCHANGE RATES AN INCREASE IN THE
JAPANESE IMPORT QUOTAS WAS LIKELY TO BE INEFFECTIVE
AT THIS TIME UNLESS IT WAS ACCOMPANIED BY A DECREASE
IN THE JAPANESE DUTY RATES. A FAILURE BY U.S. TANNERS
TO FILL A SIGNIFICANT INCREASE IN JAPANESE QUOTAS WOULD
BE AN EMBARRASSMENT TO US AND WOULD MAKE FUTURE NEGOTIA-
TIONS MORE DIFFICULT. I PROPOSED, THEREFORE, THAT A
MODEST DOUBLING OF THE QUOTA (TO WORLD \$17.2 MILLION;
U.S. \$5.0 MILLION) ACCOMPANIED BY A HALVING OF THE
DUTIES ON BOVINE LEATHER (TO APPROXIMATELY 10) MIGHT
BE POLITICALLY ACCEPTABLE TO THE JAPANESE AND WOULD
PROVIDE AT LEAST A START OF OPPORTUNITIES FOR U.S.
LEATHER PRODUCERS.

I FURTHER MENTIONED THAT IN INDIVIDUAL TRADE CONTACTS,
THE JAPANESE HAVE MENTIONED THE POSSIBILITY OF CHANGING
THE CLASSIFICATION OF QUOTE WET BLUE CATTLEHIDES END
QUOTE FROM THE CATEGORY OF LEATHER TO THAT OF RAW HIDES.
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THESE NEGOTIATIONS MIGHT PROVIDE THE OPPORTUNITY OF
ACHIEVING THIS MUTUALLY BENEFICIAL OBJECTIVE.

ONE POINT THAT I FAILED TO MENTION DURING OUR DISCUSSION
IS THE ADMINISTRATION OF THE QUOTAS. WHILE IT MAY
NOT BE APPROPRIATE TO DEAL WITH SPECIFIC REFORMS IN
THESE VERY HIGH LEVEL DISCUSSIONS, THE JAPANESE
SHOULD BE TOLD THAT IF THEY SERIOUSLY ARE OFFERING
SOMETHING IN THE LEATHER AREA, THE CURRENT METHOD OF
GRANTING QUOTA ALLOTMENTS TO SELECTED LEATHER DEALERS
IS UNSATISFACTORY AND MUST BE CHANGED IF INCREASED
QUOTAS ARE TO HAVE MEANING.

IN OUR CONVERSATION YOU ASKED FOR JUSTIFICATION FOR MY
ALLEGATION THAT BECAUSE OF THE CHANGE IN THE RATIO
BETWEEN THE YEN AND THE DOLLAR, THE U.S. TANNING
INDUSTRY'S COMPETITIVE POSITION HAS BEEN ERODED
DURING THE PAST YEAR. THIS STATEMENT IS IN CONTRAST
TO GENERALLY ACCEPTED DOCTRINE THAT THE RELATIVE
REDUCTION OF THE DOLLAR MAKES ALL EXPORTS CHEAPER AND
THEREFORE MORE COMPETITIVE. HOWEVER, THE SEEMINGLY CON-
TRARY TO REASON POSITION IN WHICH THE LEATHER INDUSTRY

FINDS ITSELF HAS ITS FOUNDATION IN THE DISTINCTION THAT THE JAPANESE MAKE BETWEEN THEIR IMPORTS OF RAW MATERIALS AND THEIR IMPORTS OF MANUFACTURED PRODUCTS. THE LEATHER INDUSTRY IS PARTICULARLY AFFECTED BY THESE POLICIES BECAUSE SO MANY OF THE JAPANESE INPUTS TO

THE MANUFACTURE OF LEATHER COME FROM THE U.S. OR ARE IMPORTED AS DOLLAR DENOMINATED COMMODITIES.

AS EXPLAINED IN OUR ORIGINAL COMPLAINT, THE JAPANESE DEPEND ALMOST EXCLUSIVELY ON U.S. CATTLEHIDES FOR THEIR BOVINE LEATHER INDUSTRY. THE COST OF THIS INPUT COMPARED WITH COSTS IN THE U.S. HAS DECLINED TO THE LIMITED OFFICIAL USE

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EXTENT OF THE U.S. DOLLAR DEVALUATION. OTHER MAJOR INPUTS IN LEATHER MANUFACTURE ARE DOLLAR DENOMINATED. SOUTH AFRICAN CHROME AND OIL FOR ENERGY AND LEATHER FINISHES COST THE JAPANESE FEWER YEN TO THE EXTENT OF THE U.S. DOLLAR DEVALUATION.

THERE ARE TWO OTHER IMPORTANT COSTS IN LEATHER MANUFACTURING THAT, WHILE NEITHER IMPORTS NOR DOLLAR DENOMINATED, NEVERTHELESS ARE AFFECTED DIFFERENTLY IN THE TWO COUNTRIES. THESE TWO ARE LABOR AND CAPITAL

COSTS. CAPITAL COSTS FOR THE JAPANESE TANNER HAVE DECLINED IN COMPARISON WITH HIS U.S. RIVAL BECAUSE LESS CAPITAL IS REQUIRED FOR THOSE INPUTS THAT ARE IMPORTED FROM THE U.S. OR DENOMINATED IN DOLLARS.

EVEN COMPARATIVE LABOR COSTS HAVE CHANGED BETWEEN THE TWO COUNTRIES AS A RESULT OF THE REALIGNMENT IN CURRENCY VALUES. BECAUSE SO MANY OF THE INPUTS TO THE JAPANESE ECONOMY HAVE DECLINED, THERE HAS BEEN A LESSER NEED TO COMPENSATE WORKERS FOR INCREASED LIVING COSTS. IN THE U.S. THE TANNING INDUSTRY, WHILE DOING A COMMENDABLE JOB IN A NATIONAL COMPARISON, NEVERTHELESS HAS SUFFERED A MINIMUM 6 INCREASE IN LABOR RATES.

AS THE INPUTS FOR THE JAPANESE HAVE GONE DOWN ALL ALONG THE LINE, INPUTS FOR AMERICAN TANNERS HAVE INCREASED. IT IS IMPOSSIBLE TO WEIGH EXACTLY THE RELATIVE U.S. DISADVANTAGE IN THE CHANGE IN JAPANESE-U.S. COST INPUTS IN LEATHER MANUFACTURE WITH THE ADVANTAGES THE DEVALUATION GIVES TO THE U.S. SALES OF FINISHED LEATHER. HOWEVER, IT IS OUR OPINION THAT RELATIVE COSTS HAVE INCREASED TO AT LEAST A 9 GREATER LIMITED OFFICIAL USE

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EXTENT THAN THAT COMPENSATED FOR BY THE EXCHANGE RATE
SHIFT ON THE FINISHED PRODUCT. THIS IS THE REASON

BEHIND OUR INSISTENCE ON A LINK BETWEEN AN INCREASE
IN IQ WITH A DECREASE IN DUTIES. ONE WITHOUT THE OTHER
IS BOUND TO BE INEFFECTIVE.

YOURS VERY TRULY

EUGENE L. KILIK
PRESIDENT

P.S. THE ANALYSIS OF THE EFFECT OF EXCHANGE RATE
CHANGES ON INDUSTRIES WHERE THE U.S. SUPPLIES
MOST OF THE INPUTS OTHER THAN LABOR IS
APPROPRIATE IN MANY CASES; THE STEEL INDUSTRY
IS ONE. OUR NEGOTIATORS MUST RECOGNIZE THIS WHEN
DISCUSSION OF DISPARITIES IN DUTY RATES AND NTB'S

BETWEEN RAW MATERIALS AND FINISHED PRODUCTS
OCCURS. EFFECTS OF DEVALUATION ARE NOT ALWAYS
SIMPLE AND ONE DIMENSIONAL.

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